

**ARIZONA**  
**MONTHLY FISCAL HIGHLIGHTS**  
**June 2006**

**Summary**

General Fund revenue collections were \$853.6 million in May. These collections were 28.6% higher than May 2005 revenues. Year-to-date, General Fund revenues are 17.0% higher than in 2005.

May collections were \$183.8 million higher than the revised January JLBC Baseline FY 2006 forecast. The recently enacted budget legislation assumes that FY 2006 revenue collections will be \$496 million higher than the JLBC January Baseline estimate by the end of June. For the fiscal year-to-date through May, revenues are \$475.0 million above the January forecast.

Collections in May exceeded the already high rates of growth seen throughout most of the fiscal year. Of the 3 largest revenue categories, May sales tax collections were 14.8% above last year, consistent with prior months' growth for that category. Individual income tax collections nearly doubled from last year, growing at a rate of 85.0%. The high rate of growth in collections was driven by a large increase in final payments, which more than tripled final payments from last year. Corporate income tax collections decreased (22.3)% from the prior year. The reduction, however, appears to be the result of early processing of corporate collections in April.

In other fiscal news this month, the JLBC met on June 14<sup>th</sup> and the JCCR met on June 15<sup>th</sup>. A summary of the meetings can be found on pages 5 - 7. The two committees favorably reviewed a number of year-end fund transfers, except for a Department of Economic Security (DES) transfer from the Temporary Assistance to Needy Families (TANF) Special Line Item to other areas of the DES budget, which received an unfavorable review from JLBC. JCCR also favorably reviewed a report by the School Facilities Board on projected FY 2007 new school construction spending. The board expects to oversee 75 construction projects and spend a total of \$360.7 million in that year. *(See page 9 for a list of all projects.)*

The June Monthly Fiscal Highlights also includes a summary of recent statutory reports submitted to JLBC *(see page 7)*.

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# State of Arizona

## General Fund Revenue: Change from Previous Year and January Forecast

### May 2006

	Current Month					FY 2006 YTD (Eleven Months)				
	Actual May 2006	Change From				Actual May 2006	Change from			
		May 2005		Revised Forecast			May 2005		Revised Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b><u>Taxes</u></b>										
Sales and Use	\$362,497,362	\$46,832,852	14.8 %	\$20,018,820	5.8 %	\$3,890,093,074	\$562,438,095	16.9 %	\$93,201,456	2.5 %
Income - Individual	423,818,481	194,696,448	85.0	188,725,575	80.3	3,354,929,381	663,892,480	24.7	339,185,111	11.2
- Corporate	52,843,691	(15,205,029)	(22.3)	(16,381,710)	(23.7)	724,738,736	120,282,976	19.9	55,281,166	8.3
Property	3,165,364	(2,121,472)	(40.1)	(1,249,609)	(28.3)	19,489,423	(2,540,087)	(11.5)	(510,577)	(2.6)
Luxury	6,030,911	184,618	3.2	357,911	6.3	61,170,493	3,275,729	5.7	999,568	1.7
Insurance Premium	25,718,962	(5,787,297)	(18.4)	244,262	1.0	301,286,723	7,555,540	2.6	(292,177)	(0.1)
Estate	81,923	(1,544,432)	(95.0)	(693,077)	(89.4)	11,644,833	(18,288,866)	(61.1)	(2,606,750)	(18.3)
Other Taxes	49,984	1,830	3.8	(17,016)	(25.4)	1,188,567	(1,343,511)	(53.1)	533,864	81.5
<b>Sub-Total Taxes</b>	<b>\$874,206,678</b>	<b>\$217,057,518</b>	<b>33.0 %</b>	<b>\$191,005,156</b>	<b>28.0 %</b>	<b>\$8,364,541,230</b>	<b>\$1,335,272,356</b>	<b>19.0 %</b>	<b>\$485,791,661</b>	<b>6.2 %</b>
<b><u>Other Revenue</u></b>										
Lottery	922,000	(2,218,400)	(70.6)	(1,078,000)	(53.9)	38,311,100	10,899,500	39.8	1,168,300	3.1
License, Fees and Permits	2,502,267	120,581	5.1	674,367	36.9	29,922,134	3,728,216	14.2	1,295,187	4.5
Interest	4,346,430	1,299,695	42.7	(252,170)	(5.5)	54,056,631	31,571,433	140.4	8,395,801	18.4
Sales and Services	4,659,732	1,195,638	34.5	1,409,332	43.4	46,801,777	7,220,919	18.2	2,130,574	4.8
Other Miscellaneous	2,311,162	(920,512)	(28.5)	(2,863,238)	(55.3)	21,309,346	1,013,489	5.0	(8,577,951)	(28.7)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	43,923	(16,638,239)	(99.7)	(5,116,077)	(99.1)	18,898,507	(33,825,640)	(64.2)	(15,247,600)	(44.7)
<b>Sub-Total Other Revenue</b>	<b>14,785,514</b>	<b>(17,161,237)</b>	<b>(53.7) %</b>	<b>(7,225,786)</b>	<b>(32.8) %</b>	<b>209,299,495</b>	<b>20,607,917</b>	<b>10.9 %</b>	<b>(10,835,689)</b>	<b>(4.9) %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$888,992,192</b>	<b>\$199,896,281</b>	<b>29.0 %</b>	<b>\$183,779,370</b>	<b>26.1 %</b>	<b>\$8,573,840,725</b>	<b>\$1,355,880,273</b>	<b>18.8 %</b>	<b>\$474,955,972</b>	<b>5.9 %</b>
<b><u>One-Time Revenue</u></b>										
Urban Revenue Sharing	(35,435,744)	(4,346,362)	14.0	0	0.0	(389,793,183)	(47,809,986)	14.0	0	0.0
VLT Transfer	0	(5,500,888)	(100.0)	0	--	0	(117,825,282)	(100.0)	0	--
Judicial Enhancement	0	(559)	(100.0)	0	--	0	(2,121,439)	(100.0)	0	--
<b>Sub-Total Transfers In</b>	<b>(35,435,744)</b>	<b>(9,847,809)</b>	<b>38.5 %</b>	<b>0</b>	<b>0.0 %</b>	<b>(389,793,183)</b>	<b>(167,756,707)</b>	<b>75.6 %</b>	<b>0</b>	<b>0.0 %</b>
<b>TOTAL REVENUE</b>	<b>\$853,556,448</b>	<b>\$190,048,472</b>	<b>28.6 %</b>	<b>\$183,779,370</b>	<b>27.4 %</b>	<b>\$8,184,047,542</b>	<b>\$1,188,123,566</b>	<b>17.0 %</b>	<b>\$474,955,972</b>	<b>6.2 %</b>

**MAY REVENUES**

**Sales Tax** revenue increased by 14.8% on a year-over-year basis in May and was \$20.0 million above the revised forecast for the month. The following table displays the May and year-to-date growth rates for the major categories:

**Table 2****Sales Tax Growth Rates**

	<u>May</u>	<u>Year-to-Date</u>
Retail	14.3%	14.7%
Contracting	24.2%	27.7%
Utilities	10.9%	11.9%
Use	0.1%	21.1%
Restaurant & Bar	8.6%	12.6%

May use tax collections were relatively flat from last year. This is in part due to the strength of May 2005 collections. The other major categories grew at a healthy rate, though at a slightly slower pace than prior months.

**Individual Income Tax** collections were \$423.8 million in May, an 85.0% increase from last May and \$188.7 million above the revised forecast for the month. Final payments increased \$169.6 million, or 212.6%, over May of last year. Withholding collections grew at a rate of 13.4%, while refunds increased by 13.0% on a year-over-year basis. Year-to-date, total collections are 24.7% above last year.

**Corporate Income Tax** collections were \$52.8 million in May, a (22.3)% decrease from a year ago and \$(16.4) million below the revised forecast. As noted in the prior Monthly Fiscal Highlights, April collections were \$58.0 million above the revised forecast, which appears to be the result of early processing of collections in April. For the fiscal year to date, corporate income tax revenues have increased 25.3% from last year.

The General Fund portion of May **Luxury Tax** collections was \$6.4 million, or 9.7% above May 2005.

**RECENT ECONOMIC INDICATORS**

Energy costs continued to push prices higher. The **U.S. Consumer Price Index (CPI)** 3-month moving average climbed 0.6% in May and stood 3.7% above its level from a year ago. Energy costs jumped 2.4% in May, while food costs edged up 0.1% from the prior month. Excluding food and fuel prices, the core CPI increased 2.4% from May 2005.

Although the 3-month moving average of **U.S. semiconductor billings** dipped slightly in April, it remained 11.4% above the level from a year ago. The Semiconductor Industry Association (SIA) cited intense competition and falling prices in the microprocessor market segment as the source of the nominal decline. The SIA revised its 2006 forecast for worldwide semiconductor sales growth from 7.9% to 9.8%.

The **U.S. Index of Leading Economic Indicators** dropped (0.6)% in May. Building permits, vendor performance, stock prices, unemployment insurance claims, and hours worked in manufacturing all made negative contributions, while manufacturers' new orders improved.

The Conference Board's **U.S. Consumer Confidence Index** declined (6.0)% in May, reversing the gain from the prior month when it reached a 4-year high. Apprehension about the economic outlook, the labor market, and future earnings drove the expectations components of the index down to the levels reported in the wake of last summer's hurricanes.

Arizona's job market continued to perform well in May. Although **non-farm employment** edged down slightly due to seasonal influences, it remained 4.7% above May 2005. Financial services experienced job losses, perhaps in response to the slowdown in the state's housing market. However, construction added another 2,100 workers over the previous month. The state's **unemployment rate** dipped (0.1)% to 4.2% in May.

The Real Estate Center at Arizona State University reported that the Greater Phoenix **single-family median resale home price** inched up from \$264,900 to \$265,000 in May, which was 12.8% higher than a year ago and matched the record first reached in September 2005. Although the number of single-family homes sold increased from April, it was (34.1)% below the level reported in May 2005. The May **townhouse-condominium median price** remained at \$175,000 and was 22.0% above the level from a year ago.

**Table 3**

**General Fund Revenues**  
**Compared to Enacted and Revised Forecasts and FY 2005 Collections**  
(\$ in Millions)

	<u>FY 2006 Collections</u>	<u>Difference From May 2005 Forecast</u> <sup>1/</sup>	<u>Difference From Jan 2006 Forecast</u> <sup>2/</sup>	<u>Difference From FY 2005</u>
May	\$ 853.6	\$ 282.1	\$ 183.8	\$ 190.0
Year-to Date	\$ 8,184.0	\$ 1,176.5	\$ 475.0	\$ 1,188.1

<sup>1/</sup> Originally enacted FY 2006 budget (May 2005)

<sup>2/</sup> JLBC January Baseline Budget

**Arizona personal income** reached an annual rate of \$186.8 billion in 2006's 1<sup>st</sup> quarter, a 7.6% increase from the prior year. Arizona's 1.9% improvement from 4<sup>th</sup> quarter 2005 ranked 4<sup>th</sup> among the states.

The **Arizona Leading Economic Indicators Index** increased 0.2% in March. Employment, new orders, and inventories all showed improvement, while production and sensitive materials prices were among the negative factors.

The **Arizona Business Conditions Index** sank (11.9)% in May but remained above the mark of 50 associated with an expanding economy. New orders declined and the purchases component of the index dropped to its lowest level since October 2002.

The University of Arizona's **Business Leaders Confidence Index** (BLCI) decreased (14.5)% in the 3<sup>rd</sup> quarter 2006 survey, the largest drop since the survey began in 2003. The latest report was the first time the index dipped below the 50 point that represents neutral business sentiment. While expectations fell for all 6 BLCI components, the outlook for the national economy registered the lowest reading.

The **Department of Corrections' inmate population** increased by an average of 310 inmates per month from March through May. The total population increased by 1,669 inmates from a year ago.

The **number of TANF recipients** decreased (1.3)% to 87,765 in April and was (11.7)% below the level from April 2005. The **AHCCCS caseload** decreased (0.3)% in June from the prior month and was (1.1)% below the level from a year ago.

Table 4

## RECENT ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
<b>Arizona</b>				
- Unemployment Rate	May	4.2%	(0.1)%	(0.5)%
- Jobs	May	2.62 million	(0.1)%	4.7%
- Contracting Tax Receipts (3-month average)	Feb-Apr	\$73.0 million	(1.5)%	31.7%
- Retail Sales Tax Receipts (3-month average)	Feb-Apr	\$160.0 million	(7.9)%	12.9%
- Residential Building Permits - (3-month moving average)				
Single-unit	Feb-Apr	5,505	(0.6)%	(16.3)%
Multi-unit	Feb-Apr	1,024	(8.9)%	(15.1)%
- Greater Phoenix Existing Home Sales				
Single-Family	May	6,870	14.8%	(34.1)%
Townhouse/Condominium	May	1,470	5.8%	(28.5)%
- Greater Phoenix Median Home Sales Price				
Single-Family	May	\$265,000	0.0%	12.8%
Townhouse/Condominium	May	\$175,000	0.0%	22.0%
- Arizona Tourism Barometer	March	100.4	(7.1)%	(1.6)%
- Phoenix Sky Harbor Air Passengers	March	3.81 million	21.9%	0.3%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	March	\$7.28	(11.0)%	20.3%
- Leading Indicators Index	March	120.1	0.2%	(0.6)%
- Business Conditions Index (>50 signifies expansion)	May	59.1	(11.9)%	(6.5)%
- Consumer Confidence Index	2 <sup>nd</sup> Quarter 2006	102.4	(7.2)%	10.0%
- Business Leaders Confidence Index	3 <sup>rd</sup> Quarter 2006	49.6	(14.5)%	(16.1)%
- Arizona Personal Income	1 <sup>st</sup> Quarter 2006	\$186.8 billion	1.9%	7.6%
- Arizona Population	July 1, 2005	5.94 million	3.5%	3.5%
- AHCCCS Recipients	June	1,041,638	(0.3)%	(1.1)%
- TANF Recipients	April	87,765	(1.3)%	(11.7)%
- DOC Inmate Growth (3-month average)	Mar-May	34,293	310 inmates	1,669 inmates
<b>United States</b>				
- Gross Domestic Product (seasonally adjusted annual growth rate)	1 <sup>st</sup> Quarter 2006	\$11.4 trillion	5.3%	3.6%
- Consumer Confidence Index	May	103.2	(6.0)%	1.0%
- Leading Indicators Index	May	137.9	(0.6)%	1.7%
- U.S. Semiconductor Billings (3-month moving average)	Feb-Apr	\$3.59 billion	(3.7)%	11.4%
- Consumer Price Index (3-month moving average)	Mar-May	201.3	0.6%	3.7%

**JLBC MEETING**

At its June 14, 2006 meeting, the Joint Legislative Budget Committee (JLBC) considered the following issues:

**Department of Corrections – Consider Approval of Requested Transfer of Appropriations** – The Arizona Department of Corrections (ADC) originally requested Committee approval to transfer \$1.8 million from the Personal Services line item and \$0.2 million from the Employee Related Expenditures (ERE) line item to the Overtime/Compensatory Time Special Line Item. The department initially reported that additional funding was needed to make the final cash overtime payment for FY 2006 and to make a partial payment to employees with compensatory leave balances owed to them. The department subsequently withdrew its request, stating that the enacted supplemental appropriation would cover the immediate needs in these areas. Because ADC withdrew its request, this item was for information only and no committee action was taken.

Since the meeting, ADC has submitted to JLBC Staff year-end estimates for these line items. The department's estimates indicate that no transfers will be required prior to the end of the fiscal year.

**Department of Economic Security – Review Transfer of Appropriations** – The JLBC gave an unfavorable review to the Department of Economic Security's (DES) plan to transfer General Fund and Federal Temporary Assistance to Needy Families (TANF) Block Grant monies totaling \$13,500,000 from the TANF Cash Benefit Special Line Item (SLI). Of this amount, \$6,500,000 would be transferred to the Division of Benefits and Medical Eligibility (DBME) operating budget (\$3,500,000 GF and \$3,000,000 TANF), \$5,000,000 to the Children Support Services SLI (\$3,500,000 GF and \$1,500,000 TANF), and \$2,000,000 (all GF) to the Foster Care Placements SLI. The Committee gave an unfavorable review due to concerns with transferring monies from an entitlement program into the administrative program of the DBME operating budget.

The Committee gave a favorable review to a DES plan for a Federal Child Care Development Fund (CCDF) Block Grant transfer of \$4.0 million from the Day Care Subsidy Special Line Item (SLI) to the Transitional Child Care SLI.

**Arizona Pioneers' Home – Review Transfer of Appropriations** – The Committee gave a favorable review to a proposed Pioneers Home transfer of approximately \$257,800 from the Personal Services line and the Prescription Drug Special Line Item (SLI) to the Employee Related Expenditures (ERE) line in FY 2006.

The transfer is necessary due to the current allocation for ERE not being sufficient to fulfill required employee benefits payments through the end of FY 2006. Because the Arizona Pioneers' Home has a detailed line item budget, A.R.S. § 35-

173 requires Committee approval of transfers to or from the Personal Services and ERE line items.

**AHCCCS – Review of Rural Hospital Reimbursement Capitation Rate Change** – The Committee gave a favorable review to an AHCCCS request for an adjustment to its capitation rates in order to allocate monies from the Rural Hospital Reimbursement Special Line Item. The increase will affect only June 2006 payments and rates will return to their prior level in July 2006. AHCCCS reports that The Centers for Medicare and Medicaid Services (CMS) does not allow a Medicaid agency to make supplemental payments to providers in a managed care system and that an adjustment to the capitation rate is the only manner in which CMS will allow these monies to be distributed to the impacted hospitals.

**Attorney General – Review of Allocation of Settlement Monies** – The Committee gave a favorable review of the Attorney General's (AG) allocation plan related to the Liberty League International consent judgment. The judgment is the result of an investigation by the AG that was prompted by numerous consumer complaints. The state alleged that Liberty, a marketing company that sells personal development products, misled customers into spending money on their products by promising sizable commissions if they recruited new participants who were willing to purchase their products. As more individuals joined the program, however, recruitment became more difficult and as a result, participants earned little or no income from the business.

The judgment against Liberty required that they pay \$100,000 in civil penalties as well as AG costs and fees in the amount of \$15,000. The civil penalties and costs and fees have been placed in the Consumer Fraud Revolving Fund. Liberty League International will also make partial restitution to approximately 60 consumers who filed complaints.

**Arizona Department of Transportation – Review of Third Party Quality Assurance Report** – The Committee gave a favorable review of the Arizona Department of Transportation's (ADOT) third party quality assurance report. The FY 2006 General Appropriation Act included an increase of \$140,000 and 3 FTE Positions for increased workload in the third party quality assurance program. ADOT is required to submit quarterly progress reports regarding increasing third party transactions, the status of third party quality assurance staffing, workload, backlog and the moratorium on accepting new third parties.

According to ADOT, the department has made progress toward eliminating the waiting list for new third party title and registration vendors. The department increased staffing by 2 FTE Positions in the third quarter of FY 2006, making a total of 22 filled FTE Positions out of 23 approved FTE Positions. In addition, ADOT authorized 5 current vendors to expand to other offices, and is currently conducting site visits for 19 more existing vendors who would like to expand to other offices. The department is also in the process of reviewing business plans for 67 prospective vendors.

**Arizona Department of Education – Review of Kinder Morgan Settlement** – The Committee gave a favorable review to the Department of Education’s (ADE) plan to provide school districts in Yuma County with \$927,900 in corrected Basic State Aid funding due to a recent settlement in the Arizona Tax Court regarding property taxes paid in prior years by the Kinder Morgan Corporation. The favorable review conforms with statutory requirements regarding state aid corrections required as a result of Arizona Tax Court rulings.

The Arizona Court of Appeals on December 9, 2005 upheld an earlier Arizona State Tax Court ruling requiring the Arizona Department of Revenue to lower the assessed value of property owned by Kinder Morgan retroactively for FY 2001, FY 2002, FY 2003 and FY 2005. This has the effect of reducing the amount of K-12 Qualifying Tax Rate (QTR) and County Equalization Tax Rate (CETR) owed by Kinder Morgan for those years, with the state being required to make up the difference pursuant to A.R.S. § 15-915(B). Based on “before” and “after” property value numbers for Kinder Morgan under the court rulings, ADE has determined that affected school districts in Yuma County collectively are entitled to \$927,900 in additional Basic State Aid funding for the fiscal years in question.

**Arizona Department of Public Safety – Quarterly Review of the Arizona Public Safety Communications Advisory Commission** – The Committee gave a favorable review of the Arizona Public Safety Advisory Commission’s (PSCC) FY 2006 third quarter expenditures and progress for the statewide interoperability design project. Third quarter expenditures totaled \$151,100 of nearly \$4.3 million in available FY 2006 funding. Through the third quarter, FY 2006 expenditures totaled \$421,200. Activities in the third quarter addressed projects identified in the PSCC timeline relating to both the “short-term” and “long-term” interoperable solutions. In the third quarter, the PSCC expended roughly \$151,100 for costs associated with the 6 filled staff positions. The PSCC filled none of the remaining 3 vacant FTE Positions (2 telecommunication engineer and 1 technical writer positions).

**Arizona Department of Revenue – Review of Ladewig Expenditure Plan** – The Committee gave a favorable review of the Department of Revenue’s (DOR) estimated administrative expenditure plan of \$974,600 for the FY 2007 Ladewig project, with the condition that DOR report back with a revised expenditure plan if the provision to eliminate the requirement for the newspaper advertising of names of individuals with unclaimed property is enacted.

The bulk of the cost will be for Other Operating Expenditures for printing, postage and mailing warrants and form 1099’s for taxpayer payments, and for unclaimed property advertising of returned Ladewig warrants. DOR’s estimated cost of \$276,200 for unclaimed property advertising of returned Ladewig warrants will likely be reduced since the FY 2007 State Government Budget Reconciliation contained a provision to eliminate the requirement for the newspaper advertising of names of individuals with unclaimed property.

DOR’s permanent staff assigned to the Ladewig project and temporary personnel will continue to respond to the public and handle internal issues.

**Arizona Department of Administration – Consider Approval of Transfer of Appropriations** – The Committee gave a favorable review to the Department of Administration’s (ADOA) request to transfer up to \$250,000 from the FY 2006 Capital Outlay Stabilization Fund (COSF) lump sum appropriation to the Utilities Special Line Item (SLI) to pay for increased utility rates. ADOA reports that, due to increased utility costs, the FY 2006 appropriation to the Utilities SLI is insufficient to cover actual costs. Actual utilities costs are projected to be \$5,971,400, which exceeds the FY 2006 \$5,733,800 Utilities SLI Appropriation by \$237,600. The increase of \$250,000 for the Utilities SLI represents a 4.4% increase.

### JCCR MEETING

At its June 15, 2006 meeting, the Joint Committee on Capital Review (JCCR) considered the following issues:

**Arizona Department of Transportation Asphalt Storage Tanks Project** – Contingent on enactment of the FY 2007 Capital Outlay Bill, the Committee favorably reviewed the use of \$406,400 to construct 2 asphalt storage tanks. Additionally, the Committee approved the transfer of \$11,600 from a FY 2005 capital appropriation for oil storage tanks to the proposed asphalt storage tank project. The Arizona Department of Transportation requested this review prior to the passage of the FY 2007 Capital Outlay Bill in order to take advantage of an existing bid.

**Arizona Department of Transportation FY 2007 Construction Budget Expenditure Plan** – Contingent on enactment of the FY 2007 Capital Outlay Bill, the Committee favorably reviewed the use of up to \$17.3 million for Professional and Outside Services (contracted consultants) for the first 2 months in FY 2007 with 2 provisions. The first is that prior to the expenditure of any monies beyond the \$17.3 million, the Arizona Department of Transportation (ADOT) submit a complete highway construction budget expenditure plan for Professional and Outside Services, including an estimate of consulting services from the Statewide Transportation Acceleration Needs Account. The second provision is that the highway construction budget include performance measures on traffic congestion for the Phoenix and Tucson areas and for the balance of the State.

The proposed FY 2007 Capital Outlay Bill requires Committee review of expenditures for Professional and Outside Services prior to the expenditure of any monies. The favorable review of 2 months worth of expenditures, \$17.3 million, will allow ADOT time to submit more complete information on the proposed Professional and Outside Services expenditures, the Statewide Transportation Acceleration Needs Account, and traffic congestion performance measures.

**School Facilities Board New School Construction Plan** – The Committee favorably reviewed the demographic assumptions, proposed construction schedule, and cost estimates of the FY 2007 New School Construction Report. This item was previously presented at the October Committee meeting, but action was deferred until the board completed its project approval process for the current fiscal year. For FY 2007, the School Facilities Board projects:

- Increased enrollment growth of 7.1%
- New and ongoing construction of 75 schools
- School construction costs of \$360.7 million

*(See page 9 for highlights of the report.)*

**Arizona Department of Juvenile Corrections Suicide Prevention Renovations** – Contingent on enactment of the FY 2007 Department of Juvenile Corrections (DJC) budget, the Committee favorably reviewed the use of \$489,000 of the proposed budget for suicide prevention modifications of secure care facilities. This funding represents the last phase of the suicide prevention renovations, which will have cost a total of \$3,358,600 since FY 2003. The Committee's favorable review allows DJC to continue working with its current contractor for renovations without a construction delay, which would have been caused by re-bidding the project. The department will use an additional \$44,600 from its lump sum appropriation to fund the total project cost of \$533,600.

**Arizona Department of Administration Rent Exemption for the Arizona Department of Real Estate** – The Committee approved the \$10,000 rent exemption requested for the Arizona Department of Real Estate (ADRE). ADRE will use the savings to reconfigure its remaining office space and purchase equipment. The 3 offices vacated by the ADRE will be filled by the Arizona Department of Liquor Licenses and Control (ADLLC). The existing FY 2007 ADLLC budget is sufficient to cover the \$10,000 rent increase.

#### SUMMARY OF RECENT AGENCY REPORTS

**Arizona Department of Administration – GITA Quarterly Report on AZNet Implementation** – In December 2004, the Joint Committee on Capital Review requested that the Arizona Department of Administration (ADOA) and the Government Information Technology Agency (GITA) to report quarterly on the Arizona Network (AZNet), as created by the Statewide Telecommunications Management Contract. The primary contractor completed the migration of all 39,208 state users to the new network in April 2006. The contract requires state agencies to install 22,000 new internet phones over the 5-year contract term. As of April 1, ADOA reported 449 installations complete and another 575 underway.

Monthly contract payments rose from \$2.1 million in the second quarter of the fiscal year (Q2) to \$3.4 million in the third quarter (Q3), as additional agencies transitioned to AZNet. Of the latter amount, \$1.8 million paid monthly contractor service fees, \$1.4 million per month paid carrier

expenses, and \$0.2 million paid oversight and other retained costs. ADOA estimates that state agencies cumulatively saved \$80,000 per month on carrier bills during Q3.

Also in Q3, ADOA awarded a new contract for telecommunications carrier services and issued a request for proposals for a new network equipment contract. The contractor has begun upgrades to the state's core network and security infrastructure. Additionally, state agencies invested \$1.8 million in 16 capital projects under the contract during Q3, of which 13 are still active in the fourth quarter.

While GITA generally concurs with ADOA on the status of AZNet, the agency notes that the management contractor failed to provide guaranteed service levels on 4 occasions in Q2, all related to untimely repairs. As a result, the contractor provided the state with \$1,600 in credits for Q3. Also, departments are still experiencing difficulty and significant delays with the billing system, although the contractor continues to implement improvements.

**Arizona Department of Corrections – Report on Monthly Bed Plan Update** – The Department of Corrections (ADC) has been providing monthly reports to JLBC Staff updating the status of several topics:

#### Bed Update

- Arizona inmates currently occupy all of the 2,064 available provisional beds located at out-of-state facilities in Oklahoma and Texas. However, the department was notified that the firm operating the provisional prison in Pecos, Texas canceled its contract with the department. Of the 2,064 provisional beds, 864 are located in Pecos. The department reported that the contract was set to expire at the end of FY 2006. The department has requested an extension until January 2007 of its contract. At that time, the department plans to transfer the inmates to an in-state private prison facility. There were no estimates on when the request would be approved or denied. No changes were reported to the other 1,200 beds at the other provisional facility in Oklahoma.
- Inmates currently occupy all of the available leased jail beds at the Coconino and Navajo county jails. The department reports a total of 92 available beds in its daily bed capacity report but indicates an increase of 2 beds at the Navajo County jail, bringing the total to 94 beds at the 2 facilities.
- The vendor operating the inmate stores has not begun to reimburse inmates for overcharges, the department reported. In the transition to privatize inmate stores, disagreement arose regarding the vendor's practice of rounding costs up to the next nickel, which was similar to ADC's practice prior to privatization. The total amount overcharged was about \$45,000. The department reported that the vendor also continues to have problems filling orders on an increasing number of out-of-stock items.

#### Maricopa Health Care Contract

- ADC expects to receive a best and final offer soon from Maricopa Integrated Health Systems (MIHS), the only

remaining bidder after Phoenix Memorial withdrew its bid in February. The department reported it is in the final stage of evaluation and plans to award the healthcare contract for services in Maricopa County by June 30.

#### Community Accountability Program

- Through the end of May, ADC has referred 9 violators to the program, which provides supervision and treatment to eligible offenders who have violated the terms of their parole or community supervision. The program began accepting participants in mid-April.

**Economic Estimates Commission – Report on the Budget Stabilization Fund** – Pursuant to A.R.S. § 35-144(F), the Economic Estimates Commission (EEC) is annually required to calculate the amount of monies that may be deposited to or withdrawn from the Budget Stabilization Fund (BSF). The EEC estimate is calculated using a formula based on historical Arizona personal income growth and the Gross Domestic Product (GDP) deflator. On May 31, 2006, the EEC reported that the formula would have called for a \$190.9 million deposit into the BSF in FY 2006. Statute does not automatically appropriate this amount to the BSF but rather allows the Legislature to include the amount in that year's General Appropriation Act.

As part of the 2005 General Appropriation Act, the Legislature adopted certain conditional FY 2006 appropriations (otherwise known as “triggers”) that would be enacted if revenues exceeded the budgeted forecast for FY 2006. These triggers are expected to result in a total deposit of \$474.5 million to the BSF in FY 2006.

**Department of Education – Budget Status Report** – Pursuant to A.R.S. § 35-131(D) and a footnote in the FY 2006 General Appropriation Act, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for formula-funded and other major programs for FY 2006. In that report, ADE indicates that as of May 15, 2006 it projected a funding shortfall of \$(18.1) million for FY 2006. Since May 15, however, the department received approximately \$23.3 million in supplemental funding from Laws 2006, Chapter 316 (the FY 2006 supplemental bill). With the supplemental funding ADE would experience a net funding surplus of approximately \$5.2 million under current estimates.

ADE's current \$(18.1) million estimate (apart from supplemental funding) is \$7.1 million less than its most recent prior estimate of \$(25.2) million. The difference is primarily due to a \$(4.0) additional savings from prior year adjustments and a \$(1.4) million reduction in the estimated state aid cost for charter schools.

The exact FY 2006 surplus amount will not be known until after the close of the fiscal year because corrections to Basic State Aid funding allocations can be made after a fiscal year ends pursuant to A.R.S. §15-915. Allocations for current year ADM growth, in particular, are subject to change after the end of a fiscal year due to ongoing data revisions and corrections.

**State Land Department - Quarterly Report on State Trust Land Activities** – The FY 2006 General Appropriation Act (GAA) provided the Land Department with \$3.1 million in additional monies for the planning and disposition of state trust lands. The GAA also required the department to submit quarterly reports to the JLBC regarding state trust land activities. During the third quarter of FY 2006, the Land Department leased 384 acres of state trust land for right of way use valued at \$5.5 million, and sold 93.5 acres valued at \$54.6 million. Fiscal year-to-date, the department sold and leased a total of 1,310.5 acres of state trust land valued at \$394.8 million.

**Department of Revenue – Report on Revenue Generating Program** – A footnote in the General Appropriation Act requires the Department of Revenue (DOR) to report quarterly to the Committee on the effectiveness of the revenue generating program and the department's overall enforcement and collections program, including a comparison of projected and actual revenue enforcement collections for FY 2006. The revenue generating program was expected to produce \$75.1 million of gross additional enforcement revenue, including a net increase of \$53.2 million to the State General Fund.

DOR has reported their General Fund enforcement revenue, which includes both their baseline and revenue generating program monies. They did not separate out the enforcement monies attributed to the revenue generating program. DOR had General Fund enforcement revenues of \$265.5 million through the third quarter of FY 2006, which was \$24.9 million above their year-to-date goal of \$240.6 million. The following table summarizes these results.

<b>DOR's General Fund Enforcement Revenue in FY 2006 (Net of Duplications)</b>			
	<b>FY 2006 Through 3/31/05</b>		
	<b>Goal</b>	<b>Actual</b>	<b>Over/(Under)</b>
Corporate Tax Audit	\$40,105,700	\$ 38,906,500	\$ (1,199,200)
Individual Tax Audit	6,187,800	8,281,300	2,093,500
Transaction Privilege Tax Audit	11,835,500	11,073,000	(762,500)
License Compliance	9,075,300	15,191,900	6,116,600
Collections	140,503,500	158,928,400	18,424,900
Accounts Receivable <sup>1/</sup>	32,908,000	33,132,700	224,700
<b>Total</b>	<b>\$240,615,800</b>	<b>\$265,513,800</b>	<b>\$24,898,000</b>
<sup>1/</sup> Taxpayer accounts paid before they would have been moved to Collections, which allows collectors to work on other accounts.			



## School Facilities Board New Construction Report Highlights

### Demographic Projections

- For FY 2007, SFB projects enrollment growth of 7.1%.
- High growth areas include the cities of Chandler and Gilbert, districts outlying the western edge of Phoenix, and northwest Pinal County.

### Construction Schedule

- SFB estimates overseeing approximately 75 projects in FY 2007.
  - Includes 30 continuing projects and approximately 45 projects that will begin construction in FY 2007.
- SFB has approved another 8 projects that probably won't start until FY 2008.

### Cost Estimates

- Total FY 2007 projected spending equals \$360.7 million.
- Leaves SFB with \$421,200 in FY 2008.

<u>Expenditures</u>		<u>Financing</u>	
Land	\$ 35.0 M	Prior Lease-Purchase Proceeds	\$ 17.2 M
Architecture & Engineering	15.8 M	Cash	250.0 M
Construction Projects	308.9 M	Lease Revenues (Land Dept.)	10.0 M
Emergency Deficiencies	1.0 M	Transfer from Deficiencies Corrections	25.9 M
<b>Total</b>	<b>\$360.7 M</b>	New School Facilities Fund Balance	57.6 M
		<b>Total</b>	<b>\$360.7 M</b>

### District Projects

<u>District</u>	<u># of Projects</u>	<u>District</u>	<u># of Projects</u>	<u>District</u>	<u># of Projects</u>
<b><i>Apache County</i></b>		Laveen Elementary	3	<b><i>Pinal County</i></b>	
Red Mesa Unified	1	Littleton Elementary	2	Maricopa Unified	4
<b><i>Cochise County</i></b>		Agua Fria Union High	1	Casa Grande Elementary	3
Palominas Elementary	1	Buckeye Elementary	1	Coolidge Unified	3
<b><i>Maricopa County (NE)</i></b>		Buckeye Union High School	1	Florence Unified	3
Cave Creek Unified	1	Fowler Elementary	1	JO Combs Elementary	3
<b><i>Maricopa County (NW)</i></b>		Liberty Elementary	1	Apache Junction Unified	1
Dysart Unified	7	Palo Verde Elementary	1	Casa Grande Union	1
Cartwright Elementary	2	Riverside Elementary	1	Stanfield Elementary	1
Nadaburg Elementary	2	Tolleson Union High School	1	<b><i>Santa Cruz County</i></b>	
Pendergast Elementary	2	Union Elementary	1	Santa Cruz County Accommodation	1
Isaac Elementary	1	<b><i>Navajo County</i></b>		Santa Cruz Valley Unified	1
Peoria Unified	1	Blue Ridge Unified	1	<b><i>Yuma County</i></b>	
<b><i>Maricopa County (SE)</i></b>		Navajo County Accommodation	1	Crane Elementary	2
Chandler Unified	4	<b><i>Pima County</i></b>		Yuma Elementary	2
Higley Unified	3	Marana Unified	2	Yuma Union High School	1
Queen Creek Unified	2	Sahuarita Unified	2	<b>TOTAL - 45 Districts</b>	<b>83</b>
Maricopa County Regional	1	Sunnyside Unified	2		
<b><i>Maricopa County (SW)</i></b>		Vail Unified	2		
Saddle Mountain Unified	4	San Fernando Elementary	1		